Policy on Sustainability and Active Ownership in Investments

1. Purpose and approach

Industriens Pension finds that a company's ability to manage environmental, climate and social issues such as human and labour rights, as well as corporate governance, can impact the company's ability to create value and therefore Industriens Pension's returns on investing in the company.

Industriens Pension's goal for its investments is to ensure the highest possible long-term real rate of return after costs, while at the same time accounting for investment risk. To the extent that it does not conflict with the objective of providing the highest possible real rate of return at an acceptable level of risk, Industriens Pension strives to promote a sustainable development of society through its investments.

This Policy on Sustainability and Active Ownership in Investments establishes the framework for our approach to sustainable investments.[1]

The policy covers investments in all asset classes, including equities, corporate bonds, government bonds and unlisted investments. The policy applies to direct as well as indirect investments (e.g. through a collective investment scheme or a fund), and to both internal and external portfolio managers.

Industriens Pension aims to promote the sustainability of investments through active ownership, in which Industriens Pension imposes sustainability requirements on the companies invested in. A risk-based approach is applied, in which Industriens Pension prioritises its efforts where the risk, severity and extent of adverse impacts are highest, and where Industriens Pension can achieve the best possible results from influencing companies.

Industriens Pension follows the UN Principles for Responsible Investment (PRI), see Annex A, with the aim of including environmental, social and corporate governance factors throughout the investment process and thereby promoting the sustainability of investments. Industriens Pension also aims to be transparent about this work.

2. Sustainability

The objective of supporting social development through investments distinguishes between two key factors:

1) how adverse sustainability factors affect the assets in which we invest. We call this *sustainability risks*.
2) how the assets in which we invest can adversely affect sustainability of society. We call this *adverse sustainability impacts*.

In assessing both factors, several indicators will coincide, as many sustainability indicators affect risks on investment returns *and* the investment's impact on the wider community.

In order to mitigate both sustainability risks and adverse sustainability impacts, investments in Industriens Pension's portfolio must live up to a number of principles for social responsibility and sustainability.

3. Principles

The due diligence process prior to any investment and Industriens Pension's procedures to monitor and exercise active ownership during the lifetime of an investment are based on the principles described below. The principles are based on current legislation and sanctions adopted by the EU or the UN, and on the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. Reference is also made to the Ten Principles of the UN Global Compact, which are overarching objectives for companies on corporate social responsibility, based on a number of international declarations and conventions related to social and environmental conditions, as well as anti-corruption.

3.1 Legislation

Industriens Pension does not want to invest in companies which deliberately or repeatedly violate current legislation in those countries in which the companies operate, or in companies which violate legislation from international organisations of which Denmark is a member.

3.2 Sanctions

Industriens Pension does not wish to invest in companies or states that are subject to sanctions adopted by the UN or the EU.

3.3 Human rights[2]

Industriens Pension wants to invest in companies that respect human rights and do not contribute to adverse impacts on human rights. Industriens Pension expects companies to take responsibility for any adverse impacts on human rights that their activities may cause and expects companies to be open about their general approach to human rights. There is a particular focus on investments in both regions and sectors where there is the highest risk of human rights violations. There is also an emphasis on equal rights, cultural rights, safety and health.

[1] Industriens Pension's Policy on Sustainability and Active Ownership in Investments has been prepared in accordance with the Guidelines on Responsible Investment (Vejledning om Ansvarlige Investeringer) issued in 2018 by the Danish Business Authority. These guidelines are based on the OECD sector-specific guidelines, "Responsible Business Conduct for Institutional Investors", which is a tool for institutional investors implementing the OECD Guidelines for Multinational Enterprises.

[2] Industriens Pension's guidelines on human rights are based on Principles 1 and 2 of the UN Global Compact (Annex B), which are based on the UN Guiding Principles on Business and Human Rights.[2] The guidelines are intended to ensure respect for human rights set out in the 1948 Universal Declaration of Human Rights.

3.4 Labour rights[3]

Industriens Pension wants to invest in companies that respect fundamental labour rights by ensuring, for example:

- freedom of association and the right to collective bargaining
- elimination of forced labour
- abolition of child labour
- elimination of discrimination, including ensuring the right to equal pay
- a safe and healthy working environment.

3.5 Environment and climate[4]

Industriens Pension is focused on integrating environmental and climate considerations into the investment process, among other things, to support the goals of the 2015 Paris Agreement and reach carbon neutrality by 2050. This includes carbon emissions, resource consumption and promoting environmentally friendly technologies. Industriens Pensions approach is to use active ownership in order to influence companies in the portfolio to transition and to limit adverse impacts on climate and the environment. For some companies, their current adverse impact on environmental and/or social conditions is so significant that they are excluded from the investment universe. This applies to companies that extract thermal coal (zero tolerance) and companies where more than 5% of revenues come from oil extracted from tar sand.

Direct investments in properties built after 2020 are conditional on the building being able to achieve a gold standard in the DGNB sustainability certification system.

3.6 Anti-corruption[5]

Industriens Pension does not want to invest in companies which contribute to corruption, e.g. by offering, giving or demanding bribes.

3.7 Tax[6]

As a pension company acting on behalf of members, Industriens Pension ensures payment of taxes and duties on members' pension schemes in accordance with legislation.

- Industriens Pension, cooperation partners and the companies Industriens Pension invests in have to pay the right amount of tax, neither more nor less. The authorities are responsible for establishing the right level of tax.
- The companies in which Industriens Pension invests
  - must comply with the tax legislation and regulations in the countries in which they operate.
  - must provide timely reports of relevant and/or statutory information to the relevant authorities.
  - must determine internal transfer prices in accordance with the arms-length principle (that the price must be determined as between independent parties).
  - should avoid unnecessarily complex and non-transparent structures for tax optimisation.
- In collaboration with other Danish investors, Industriens Pension has prepared a common tax code of conduct, with principles and recommendations for unlisted investments, describing how external asset managers should act in regard to tax.
- Industriens Pension generally encourages openness and transparency with regard to tax payments.

Industriens Pension does not wish to invest in investment structures in countries that do not collaborate to combat tax evasion. Industriens Pension keeps itself informed about this on an ongoing basis and refers to information from sources including the EU.

3.8 Weapons in violation of conventions[7]

Industriens Pension does not wish to invest in companies whose activities are associated with weapons in violation of conventions in the form of anti-personnel landmines, cluster munitions, biological weapons and chemical weapons. Activities associated with weapons that are in violation of conventions are defined as production, sale/trade, testing, development, system integration, maintenance and service of these types of weapons or subcomponents thereof. In addition, it does not invest in companies involved in the production of nuclear weapons that are headquartered in countries that have not ratified the 1968 Treaty on the Non-Proliferation of Nuclear Weapons.

3.9 Corporate governance

One element of our investment due diligence process is to assess corporate governance, as good corporate governance is a prerequisite for companies to create value in the long term. The assessment is based on the OECD Guidelines for Multinational Enterprises.[8]

During the life of the investments, the overarching topics for corporate governance, which form the basis of the ongoing dialogue with companies as well as Industriens Pension's voting policy, are based on the recommendations issued by the Corporate Governance Committee, and on current legislation and local standards for corporate governance in the relevant countries. In this context, Industriens Pension expects companies to follow local and international recommendations, or to provide an explanation if they have chosen to do things differently.

3.10 Accountability of countries

Industriens Pension's investments in government bonds are based on an overall

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[3]Industriens Pension's guidelines on labour rights are based on Principles 3, 4, 5 and 6 of the UN Global Compact (Annex B), which are based on the International Labour Organization's (ILO) 1998 Declaration on Fundamental Principles and Rights at Work and the ILO conventions.[3]

[4]Industriens Pension's guidelines on environmental and climate conditions are based on Principles 7, 8 and 9 of the UN Global Compact (Annex B), which are based on the 1992 Rio Declaration on Environment and Development and the 2015 Paris Agreement

[5]Industriens Pension's guidelines on anti-corruption are based on Principle 10 of the UN Global Compact (Annex B), which is based on the 2003 UN Convention against Corruption.

[6]Industriens Pension's guidelines on payment of taxes are based on the OECD Guidelines for Multinational Enterprises.

[7]Industriens Pension's guidelines on weapons in violation of conventions are based on the 1997 Ottawa Convention (anti-personnel landmines), the 2008 Oslo Convention (cluster munitions), the 1997 OPCW Convention on Chemical Weapons, the 1972 UN Biological Weapons Convention and the 1968 UN Treaty on the Non-Proliferation of Nuclear Weapons.

[8] The OECD Guidelines for Multinational Enterprises recommend that companies follow the G20/OECD Principles of Corporate Governance.

assessment of the ESG conditions in the debt-issuing state. Factors such as respect for human rights, climate considerations, effective and stable governance, etc. are central elements. To assess a given state's ESG performance, a model is used that provides an aggregated ESG score on a scale from 0-100. Issuances of government bonds from countries with a score below 25 will be excluded.

4. Integration of sustainability risks

Industriens Pension assesses how sustainability factors may constitute a risk of lower returns on investments than anticipated, or a risk that, in the worst case, Industriens Pension is left with "stranded assets". Sustainability risks are environmental, social or governance (ESG) incidents or circumstances that, if they occur, can have an actual or potential significant adverse impact on the value of investments.

We assess sustainability risks in line with other risks associated with our investments. In other words, irrespective of the type of risk, we want to ensure that we get sufficient payment in the form of expected returns from accepting the risk.

Investments in the portfolio are expected to comply with the principles set out in section 3 in order to mitigate sustainability risks. This applies, for example, to the decision not to invest in thermal coal mining or in companies involved in oil production where more than 5% of revenues come from oil extracted from tar sand, as such activities are assessed to be associated with particularly significant sustainability risks, see principles for the environment and climate in section 3.5.

Sustainability risks are integrated in investment decisions in several areas, but data for sustainability risks is limited and is generally only available within the climate area for listed assets.

So far quantitative targets for sustainability risks are therefore limited to targets for climate risks. Other risks are addressed qualitatively through dialogue with the companies invested in and the managers who act on behalf of Industriens Pension.

4.1 Integrating climate risks

Due to the accelerating rate of climate change, climate risks are assessed to be the most significant sustainability risks in investment decisions, and therefore they get special attention. A distinction is made between physical climate risks and transition climate risks.

According to Annex D, physical climate risks may be direct harm to assets as a consequence of climate change. It may also be losses as a result of derived effects of climate change, e.g. flooding, lower economic activity in the areas affected, increasing insurance costs and political instability.

Transition risks are associated with companies' needs to convert their business model to a low-emissions society. These risks can largely be influenced by political requirements and regulation. Large parts of companies' production processes may have limited value if they cannot be converted to a sustainable economy, and this can in turn affect the value of our investment.

We integrate climate risk in our investment due diligence process by applying a model that aims to quantify the potential financial impact resulting from physical conditions or transition costs, as well as the value of new technological opportunities. Climate risk is measured using two different scenarios, with 1.5 and 3 degrees of warming respectively.

The investment guidelines define the limits in terms of the maximum level of acceptable climate risk for the entire investment portfolio in each of the two scenarios. Climate risk is calculated on a quarterly basis, and at the asset class level. While data for climate risk is available for listed assets, this is not the case for unlisted assets in the portfolio. Climate risk for unlisted assets is therefore estimated on the basis of climate risks from the listed portfolio broken down by sector.

In addition, the climate risk model is used in the annual portfolio optimisation process to adjust the expected returns from the different asset classes based on how sensitive they are to climate risk. In the optimisation process, assets with a high climate risk will tend to have a reduced weighting.

In the unlisted space, where climate risk is estimated, additional information is included. For direct infrastructure and property investments, there is typically a high degree of geographical and sectoral concentration, where sustainability risks are explicitly addressed. This applies to physical climate risk in the form of, for example, devastating sea level rises, weather conditions and temperature increases.

4.2 Integration of social and governance risks

The listed portfolio of equities and bonds is monitored for risks associated with social and governance factors. In practice the monitoring is executed as a bi-annual screening of the portfolio, see section 6.1.

There is currently no data available on social and governance factors for the unlisted part of the portfolio. Furthermore, it is not yet possible to provide quantitative data that illustrates potential losses of value as a result of social and governance factors. Consequently, risks on unlisted assets must be identified and mitigated, primarily through dialogue with companies on relevant conditions defined in Annex D. The dialogue with companies takes place through asset managers of the internal portfolios and through external asset managers we have mandated to invest on our behalf.

At a country level, the level of risk for the debt-issuing country is assessed by means of an aggregated ESG score, see the principles on countries accountability in section 3.10. Sustainability risk is limited by excluding government bonds issued by countries with a score below 25.

5. Adverse sustainability impacts

Industriens Pension considers adverse impacts on sustainability in the investment process by ensuring that the investments comply with the principles described in section 3.

The following sections describe the framework for how the principles are managed across asset classes. A risk-based approach is generally used to identify investments associated with a higher risk of adverse sustainability impacts. This means that Industriens Pension prioritises its efforts where the risk is highest and where the severity and scope of adverse impacts are greatest.

5.1 Due diligence

Prior to any investment, Industriens Pension carries out a due diligence. As an integrated part of the investment decision process, potential adverse sustainability impacts of the investment on society, the environment and climate are identified and assessed.

5.2 Internal asset management

For internally managed assets, the assessment of sustainability impacts is based on available ESG data. Furthermore, it is ensured that no investments are made in companies or in government bonds issued by countries on Industriens Pension's current exclusion lists for listed companies and countries.

With regard to direct investments in infrastructure and real estate, investment recommendations describe whether the investments live up to the principles in section 3. Direct investments in real estate are based on the requirements in the DGNB sustainability certification system.

5.3 External asset management

When Industriens Pension enters into agreements with external managers, the managers' approach to responsible investment, including their management of adverse sustainability impacts, must comply with the principles in section 3. As part of the due diligence process, Industriens Pension assesses whether the investment strategy of the fund is aligned with Industriens Pension's Policy on Sustainability and Active Ownership in Investments.

6. Active ownership

Industriens Pension exercises active ownership to mitigate sustainability risks and adverse sustainability impacts. Active ownership is in the form of ongoing monitoring and dialogue with companies in the portfolio, and by voting at general meetings held by listed companies in the portfolio. The scope and process of active ownership depends on a number of factors, including the value of Industriens Pension's investment in a specific company, its ownership interest, and the possibilities to enter mutual and effective dialogue.

6.1 Monitoring

Industriens Pension continuously monitors the investments in the portfolio according to the principles of this policy.

The portfolio of both internally and externally managed listed equities and bonds is screened every six months by an external data provider. This screening is based on the ten principles of the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

The aim of monitoring the portfolio of listed equities and bonds is to:

- Identify companies whose activities are presumed to violate Industriens Pension’s Policy on Sustainability and Active ownership in Investments.
- Provide insights into the nature of such presumed violations.
- Provide input for possible dialogue with companies about the presumed violation.
- Identify companies that require special attention, which may lead to the companies being excluded from Industriens Pension's investment universe.

In addition to monitoring the listed part of the portfolio directly, external managers of both listed and unlisted assets are evaluated during regular status meetings with respect to their efforts and development in responsible investment and promotion of sustainability.

If Industriens Pension owns infrastructure or real estate directly, Industriens Pension receives quarterly reports on investments and engages in dialogue with management on accountability and sustainability matters. In several cases, Industriens Pension has a board position in the relevant company.

6.2 Dialogue

As Industriens Pension is an active investor, the portfolio managers at Industriens Pension are engaged in ongoing dialogue with portfolio companies. Furthermore, via our external partner, EOS at Federated Hermes, Industriens Pension engages in dialogue concerning specific issues with selected companies in the portfolio. The dialogue is based on a risk assessment of the company, including an assessment of whether the company's social accountability is in line with Industriens Pension's interests as an investor. The aim of the dialogue is to implement long-term solutions that reduce both adverse sustainability impacts and sustainability risks. The results of the dialogue aim to strengthen the companies, thus increasing the long-term value for investors.

Engaging in dialogue is often a protracted process in which gradual progress is used to improve status over time. To obtain satisfactory results, discussions are generally confidential, as this often provides a more constructive dialogue with companies.

6.3 Exercising voting rights

When possible, Industriens Pension votes at general meetings of listed companies in which Industriens Pension has voting rights. Votes are casted in accordance with Industriens Pension's principles, see section 3. We consult our external partners, EOS and ISS, for advice on voting. Industriens Pension has particular focus on shareholder proposals relating to climate considerations and labour rights. Moreover, Industriens Pension itself votes at general meetings held by Danish listed companies on the basis of proximity.

6.4 Exclusion

In general, Industriens Pension will always seek to exercise influence through active ownership, and preferably in collaboration with peers, in order to increase influence on a company. Exclusion is considered a last resort, if a desired change in behaviour has not been achievable through active ownership.

If, within a reasonable timeframe, a company does not respond to the dialogue, e.g. to a joint request from a group of investors, the company may be excluded from the investment universe.

In addition to exclusions that take place following unsuccessful attempts to change a company's behaviour through active ownership, companies are excluded on the basis of involvement in products that are in violation of Industriens Pension's principles for social responsibility, see section 3. It is difficult to exercise active ownership when it comes to countries, and in terms of government bonds the choice is therefore often between investing or not investing. Exclusion of government bonds is in accordance with the principles set forth in section 3.10.

Exclusion of a company from Industriens Pension's investment universe is enforced by informing all relevant portfolio managers that they are not allowed to invest in the company in question. If, at the time of exclusion, the company is part of a manager's portfolio, it will be divested. The total portfolio of internally and externally managed listed equities is checked daily for breaches of the exclusion list. If, contrary to expectations, one of the portfolio companies has activities that conflict with Industriens Pension's policy, including exclusion criteria, the fund will have to dispose of the company if possible, or alternatively assist with any divestment of Industriens Pension's equity interests in the fund.

7. Collaboration

Industriens Pension prefers to collaborate with other institutional investors. Through EOS at Federated Hermes, Industriens Pension cooperate with peers to increase influence on the companies in which Industriens Pension invests. Furthermore, where relevant, Industriens Pension has contact with other stakeholders in portfolio companies.

Industriens Pension is also a member of organisations that promote reductions of carbon emissions and the transition to renewable energy consumption and production.

Through its membership of the Net-Zero Asset Owner Alliance (NZAOA), in line with peers, Industriens Pension aims to ensure that the investment portfolio is carbon-neutral by 2050, with intermediate targets for carbon reduction every five years until then. These reductions are promoted through active ownership, focusing on the most CO_2-emitting companies in the portfolio.

Moreover, Industriens Pension is a member of the Institutional Investors Group on Climate Change (IIGCC), a European network organisation collaborating to encourage policymakers to establish good framework conditions for investments in the climate area. Industriens Pension is also part of Climate Action 100+, a global investor initiative under the IIGCC that enters dialogue with the world's most CO_2-emitting companies to reduce their emissions.

In addition, Industriens Pension is a signatory of the global non-profit organisation, the Carbon Development Project (CDP), which encourages companies, cities, countries and investors to measure and understand their climate footprint and use this to contribute to a sustainable society.

8. Transparency and reporting

It is the ambition of Industriens Pension to be open about work on sustainable investment, including active ownership, through dialogue with companies and through voting at general meetings. Industriens Pension is continuously seeking to promote this transparency. There are, however, certain limitations in relation to what and how much it is possible to disclose about a specific company dialogue, as confidentiality is often a prerequisite for achieving results.

The Industriens Pension website includes a page about sustainable investment and active ownership. Here you will find this policy, lists of holdings, information about selected company dialogues, and a list of excluded companies Individual votes cast are published via a log-file on the website. Industriens Pension also publishes quarterly and annual statistics on the dialogue with companies and how voting rights are exercised at general meetings. In addition, Industriens Pension publishes an annual report on work on sustainable investment and active ownership, including progress, any challenges faced and future priorities.

Internal documentation, reporting and information are provided regularly, in addition to external reporting.

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Adopted at the meeting of the Board of Directors on 20 March 2025 to replace the policy adopted by the Board of Directors on 20 March 2024.

Annex A - Principles for Responsible Investment[9]

1. We will incorporate environmental, social and corporate governance issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate environmental, social and corporate governance issues into our active ownership policies and practices.
3. We will seek appropriate disclosure on environmental, social and corporate governance issues by the entities in which we invest.
4. We will promote acceptance and implementation of these principles for responsible investment within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles for Responsible Investment.
6. We will report on our activities and progress towards implementing these principles.

Annex B - UN Global Compact[10]

Human rights

1. Businesses should support and respect the protection of internationally proclaimed human rights.
2. Businesses should make sure that they are not complicit in human rights abuses.

Labour rights

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
4. Businesses should uphold the elimination of all forms of forced and compulsory labour.
5. Businesses should uphold the effective abolition of child labour.
6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.

Environment

7. Businesses should support a precautionary approach to environmental challenges.
8. Businesses should undertake initiatives to promote greater environmental responsibility.
9. Businesses should encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

10. Businesses should work against corruption in all its forms, including extortion and bribery.

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[9] https://www.unpri.org/

[10] Homepage | UN Global Compact

Annex C - Sustainability risks

Physical climate risks are defined as phenomena that can impact buildings, infrastructure and ecosystems. These include:

- Persistent climate change, such as changes in
  - Sea levels
  - Water table
  - Temperature
  - Precipitation patterns.
- Extreme isolated weather phenomena, such as
  - Flooding in connection with cloudbursts, sudden thawing or storms/hurricanes
  - Direct damage due to storms, hurricanes, tornados or similar
  - Widespread wildfires
  - Drought
  - Extreme heat or cold.
- Anthropogenic impacts on the environment, such as
  - Discharge of harmful chemicals
  - Discharge of harmful organisms.

Transition risks are defined as losses on investment assets as a result of the transition to a sustainable economy. These include:

- Changes in taxes and/or subsidy schemes, such as
  - Carbon taxes
  - Subsidies for specific technologies or methods
  - Taxes on specific technologies or methods.
- Direct regulation, such as
  - Prohibition against specific technologies
  - Limitations in where specific technologies can be placed
  - Introduction of new standards for the approval of a technology
  - Financial regulation favouring investment in specific assets.
- Cultural changes related to the transition to a sustainable economy
  - Preferences for technologies, methods, materials or products
  - Resistance against technologies, methods, materials or products.

Social risk factors are defined as loss of value caused by social conditions that have adverse impacts on the value of an investment. These include:

- Physical location of an investment asset, such as
  - Production/presence in a country that violates human rights
  - Production/presence in a conflict zone
  - Loans to countries that violate human rights or international conventions.
- Management of an investment asset, such as
  - Limited labour rights
  - Poor physical security
  - Use of child labour
  - Discrimination on the basis of gender, ethnicity, etc.
  - Consistent violation of local legislation.

Governance risk factors, which are defined as management circumstances in an investment asset that may adversely impact the value. These include:

- Extreme political views, such as
  - Sympathy for a terrorist organisation
  - Sympathy for an extremist political ideology
  - Apparent racism, gender discrimination or similar.
- Criminal offences, such as
  - Tax evasion
  - Fraud
  - Corruption
  - Bribery
  - Market manipulation.
- Deviant behaviour, such as
  - Blatant breaches of common morality
  - Irrational behaviour on social media
  - Problems relating to drugs and alcohol.